The Real Estate ANALYST

REAL ESTATE ANALYSTS INC.

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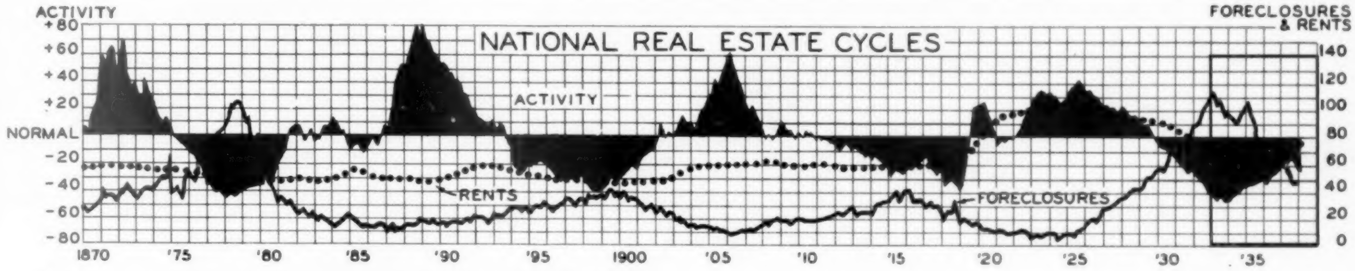
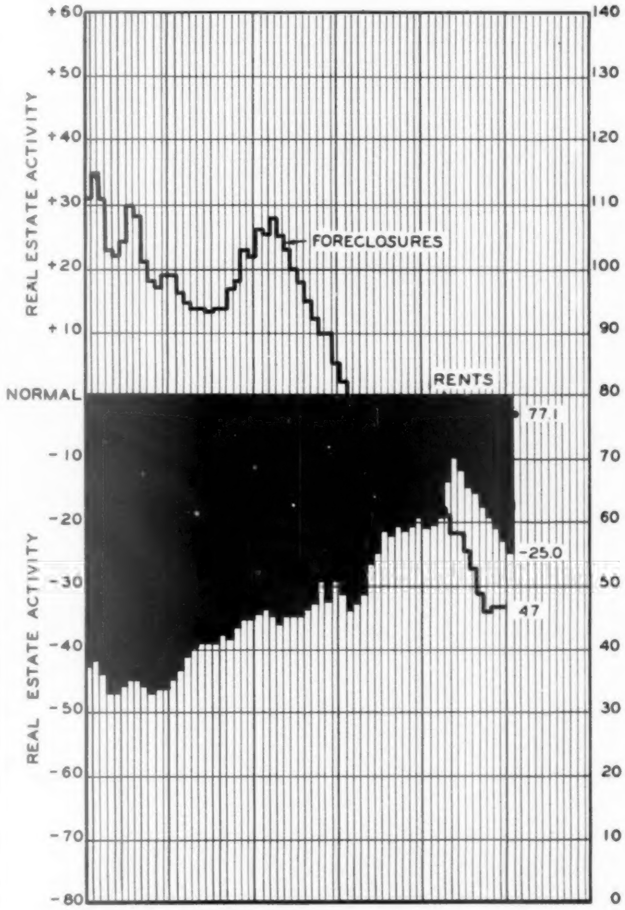
Roy Wenzlick
Editor

A concise easily digested monthly analysis based upon scientific research in real estate fundamentals and trends...Constantly measuring and reporting the basic economic factors responsible for changes in trends and values...Current Studies...Surveys...Forecasts

Real Estate Economists, Appraisers and Counselors





THE chart above shows the booms and depressions in real estate from 1870 to the present, the big black areas above the line representing the real estate booms and the black areas below the line representing the depressions. The level of residential rents is charted,not as a percentage above or below a normal line, but as an index from the bottom of the chart and is read on the right hand scale, as is the index of foreclosures. The chart to the left is the last six years of the upper chart, enlarged to show monthly fluctuations.

Real estate sales continued to decline in most parts of the United States, our national index declining from 22.7% below normal to a preliminary figure of 25.0% below. In May of last year this index had advanced to 9.7% below normal, but it has slipped back further each succeeding month.

The national foreclosure rate went sideways last month,staying at the relatively low level of the preceding month.

The rent index shown on the chart above has been refigured entirely over that shown in the previous issues. For a detailed account of the new rent index see pages 889 to 891. This index is showing a very slight drop at the present time after a slow but consistent rise during the last few years. It will not resume its rise until the recession is over as the increased vacancy due to unemployment has temporarily reduced the pressure forcing rents upward.

HOW FAR OFF IS THE BOOM ?

THE long chart in this report on pages 884 to 887 shows the real estate booms and depressions from 1864 to the present in contrast with the fluctuations in general business and the stock market. The real estate figures are compiled by Real Estate Analysts, Inc., but we are indebted to Colonel Leonard P. Ayres of the Cleveland Trust Company for the figures on general business, to E. W. Axe for the figures on the fluctuations of industrial stocks from 1864 to 1897, and to the Dow-Jones figures from 1897 to the present.

During the period from 1864 to the present there have been sixteen breaks in the stock market of considerable severity. These breaks are numbered on our chart. It will be noticed that some of these numbers are printed in black and some are printed in red. The breaks which are numbered in black occurred at a time when the fundamental capital goods cycle shown by the dotted red line on the lower real estate chart was up. (This fundamental cycle is explained in detail in the November and December, 1937, issues of the Real Estate Analyst on pages 822, 829, and 838 to 841.) The breaks which are numbered in red occurred at times when the fundamental cycle was down. Seven of these breaks occurred on the upward swing, and nine of them occurred on the downward swing.

Without exception the breaks which occurred when the fundamental movement was up affected real estate to a lesser extent than those which occurred when the fundamental cycle was down. In every one of the breaks numbered in black new building went ahead, as soon as the break was completed, in a larger volume than it had in the preceding period. Immediately following the break real estate activity advanced to a higher level than the level before the break. On the other hand, every one of the breaks numbered in red was followed by a period of less building than in the preceding period, by a smaller amount of real estate activity, and in many cases by greatly increased foreclosures.

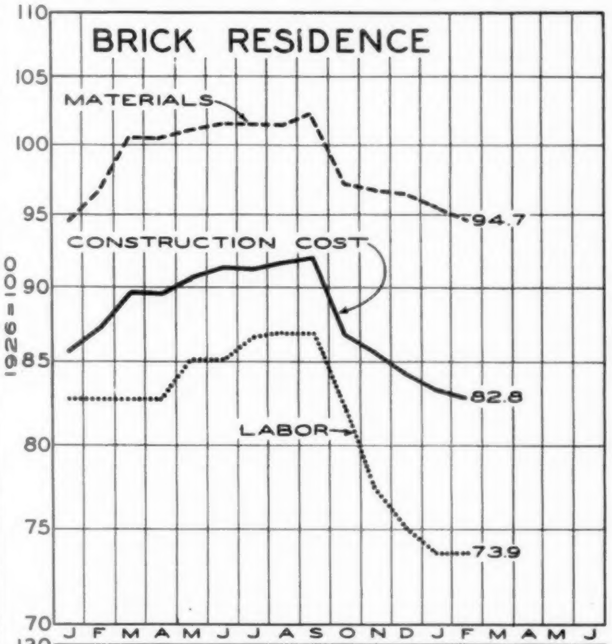
As the recent break in the market occurred at a time when our fundamental cycle is again strongly upward, we think that, everything else being equal, the previous historical pattern would indicate a recession of less severity and a more rapid recovery than we experienced from the breaks in the market which occurred in the downswing in our fundamental cycle.

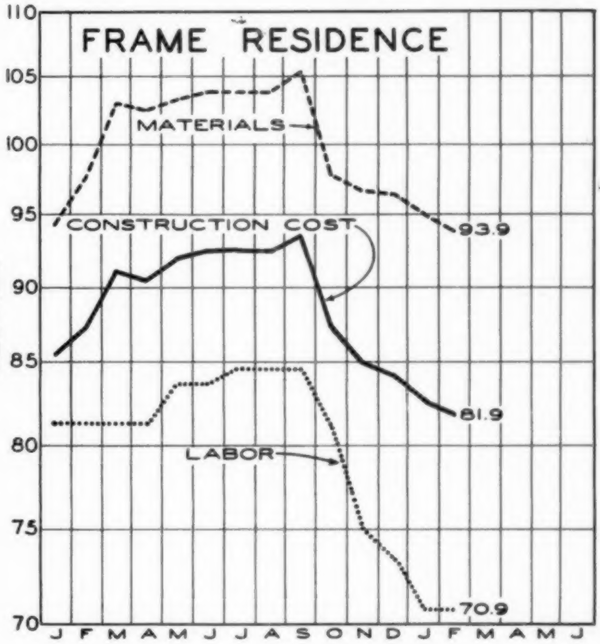
It will be noticed that in the recovery from a major real estate depression to the following real estate boom we have always gone through an intermediate period in which real estate activity fluctuated around the normal line for a longer or shorter period. These intermediate periods which preceded real estate booms are indicated on our chart by the red circles. Had we gone directly from a real estate depression into a real estate boom, it would have been the first time that this had occurred. The reaction we are now going through seems to be more or less typical.

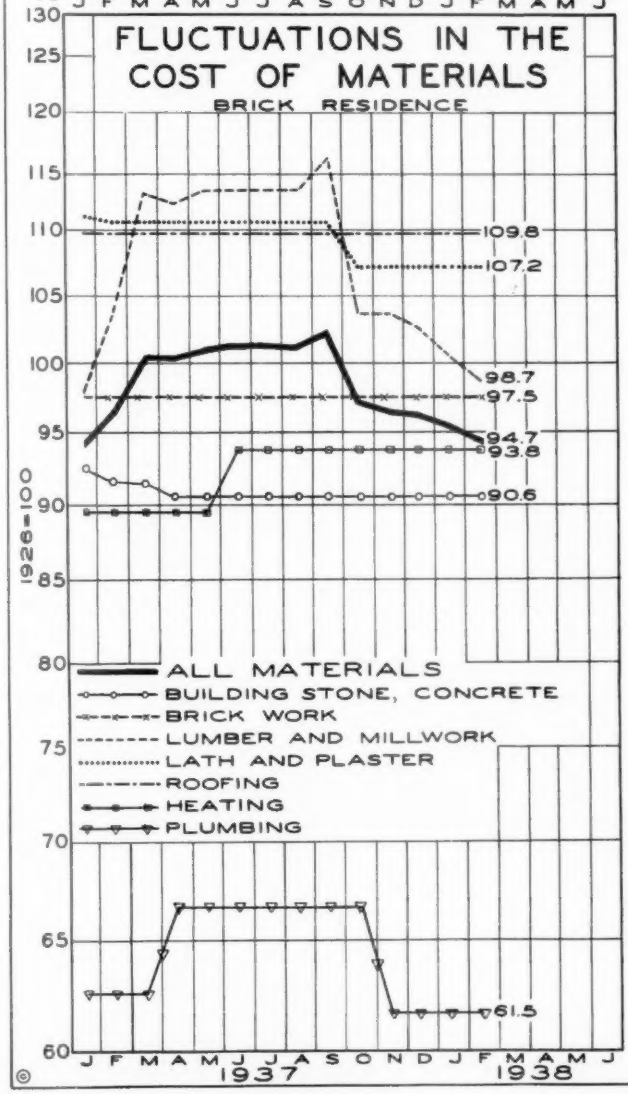
The important question is how long this intermediate period will

(continued on page 888)

CONSTRUCTION COSTS BY MONTHS

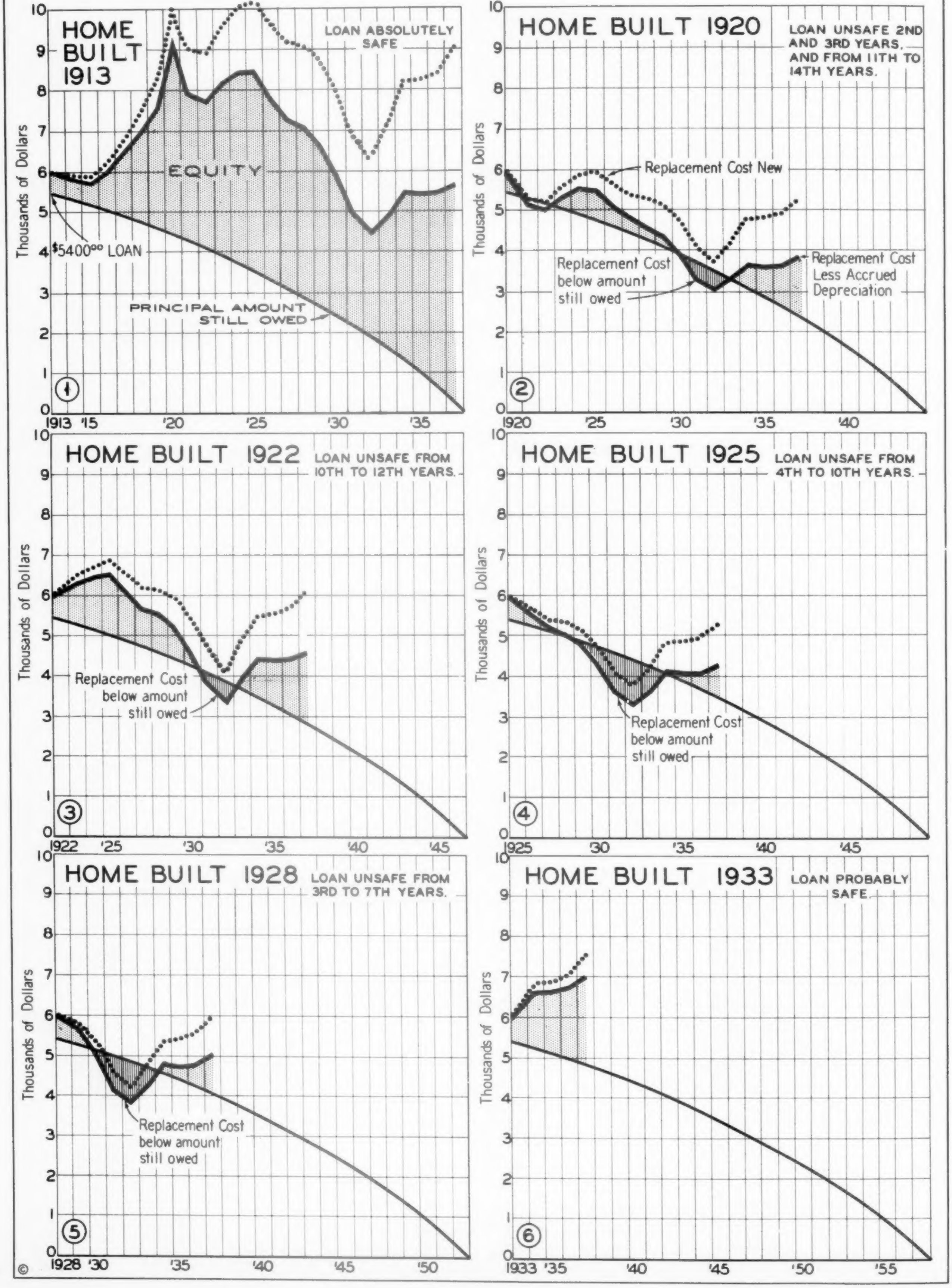






IN an effort to find out how rapidly actual construction costs have been changing in the last few months we have refigured for St. Louis for each of the past fourteen months the brick and frame buildings illustrated in our December, 1937, report. Our figures as charted on this page include all items of material, labor and overhead, even including the cost of permit and the profits of the subcontractors and the contractor. The cost of materials was secured item by item from the actual delivered prices on the job, and the labor costs were computed from wages actually paid rather than from some theoretical wage rate. The rapid drop in costs from September of last year without a comparable drop in rent levels would make a larger volume of new building possible if the prospective home builders had any great confidence in the future. The lack of confidence at the present time is the greatest deterrent to new building.

AMORTIZING 90% LOANS IN 25 YEARS



AMORTIZING 90% LOANS IN TWENTY-FIVE YEARS

IN November, 1937, the Real Estate Analyst discussed 90% loans for a twenty- and thirty-year period. At that time the amendments to the Housing Act had not yet been passed. These amendments now provide for 90% loans, amortized in twenty-five years, on homes costing $6000 or less. The six charts on the page opposite show an effort to appraise the soundness of loans of this type under the varying conditions which have existed in the United States from 1913 to the present with the thought that some of these conditions will be repeated during the next twenty-five years.

Each of the six charts presupposes a home which on completion was worth $6000, and which carried a 90% loan amortized in twenty-five years. Clearly, the homes built in these varying years for $6000 would have varied greatly in size and quality. A home built in 1913 for $6000 would have cost $10,300 to duplicate in 1925. Accordingly, the house charted as built in 1925 is very much smaller than the house charted as built in 1913.

On each of the charts the fluctuations of replacement cost new of a $6000 home in the specified year are shown by the top dotted line which includes all items of cost such as labor, materials, overhead, permits, ground, and the profits of the subcontractors and contractor. The black line shows the variations in the market value, which for the purpose of this study is assumed to be the replacement cost less accrued depreciation. These figures have been tested by actual sales prices of homes built and sold in the various years, and are believed to be approximately correct. The regular declining curve in red on each of these charts shows the amount still owed on the loan in any given year. This curve is the same on all charts, and starts with $5400 (90% of $6000) and declines to zero at the end of twenty-five years. The gray area on each chart shows the equity above the loan at any given time; and the red shaded area, where it occurs, shows a market value below the amount still owed on the loan.

It will be noticed from Chart 1 that a 90% loan on a home built in 1913 has never been in danger, as the rapid increase in construction costs and real estate values, which came shortly after the property was built, reduced the 90% loan to a loan of only 50% a few years later. The same would have been true of a loan on a home built in 1914, 1915, 1916 or 1917 as all of these homes would have increased rapidly in value during the early twenties. Chart 2, however, shows that a home built in 1920 would have been worth less than the amount still owed on it in the second to the third year, and from the eleventh to the fourteenth year. Chart 3 shows that a 90% loan on a home built in 1922 would have been relatively safe with the exception of a very short period in 1931 and 1932; however, a building constructed in 1925 (Chart 4), the year in which the largest number of single family residences were built, would have had a very unsatisfactory experience. From the fourth to the tenth year of the loan the value of the house would be less than the amount still owed on it; and in three of these years a new home could have been

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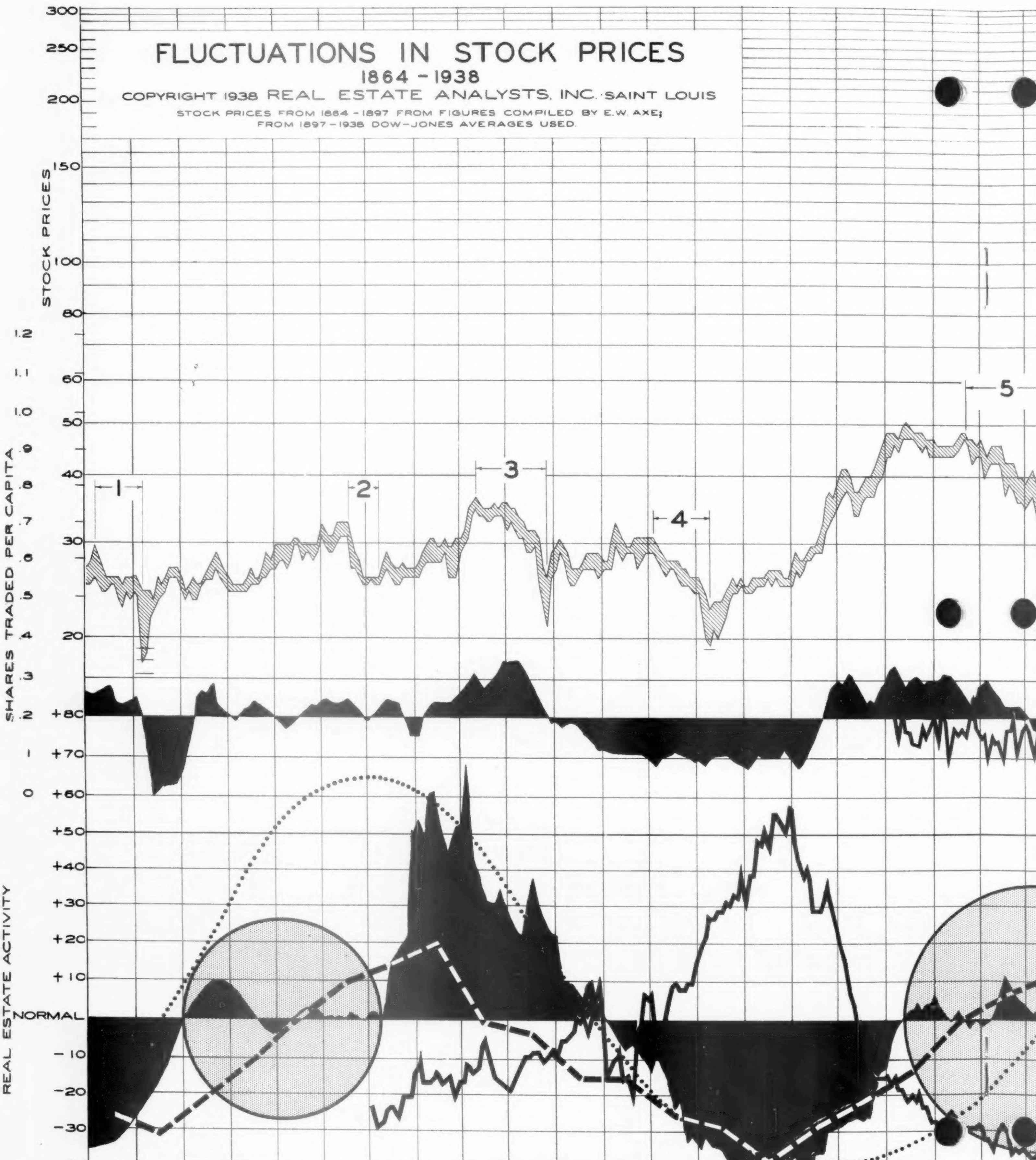
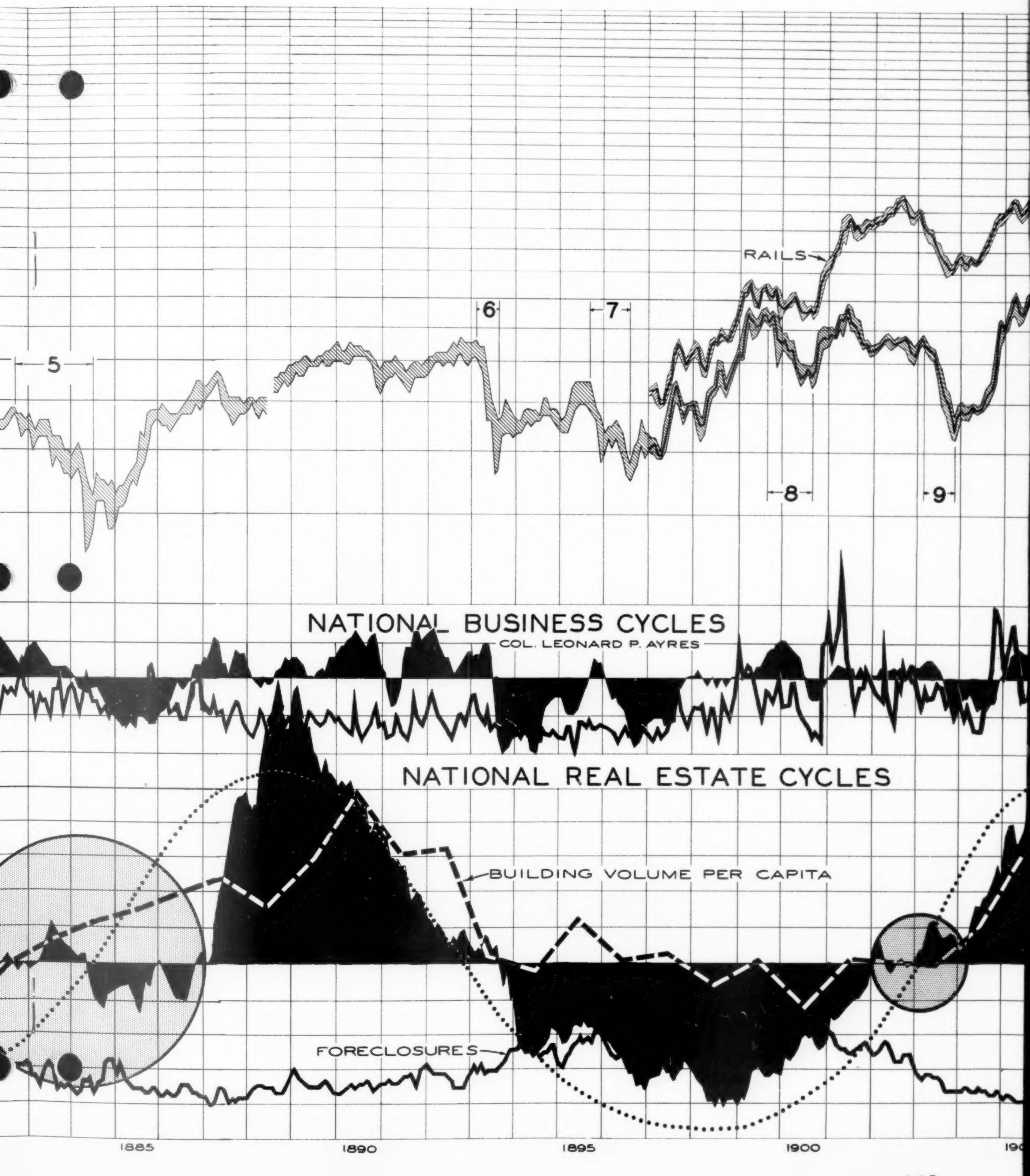
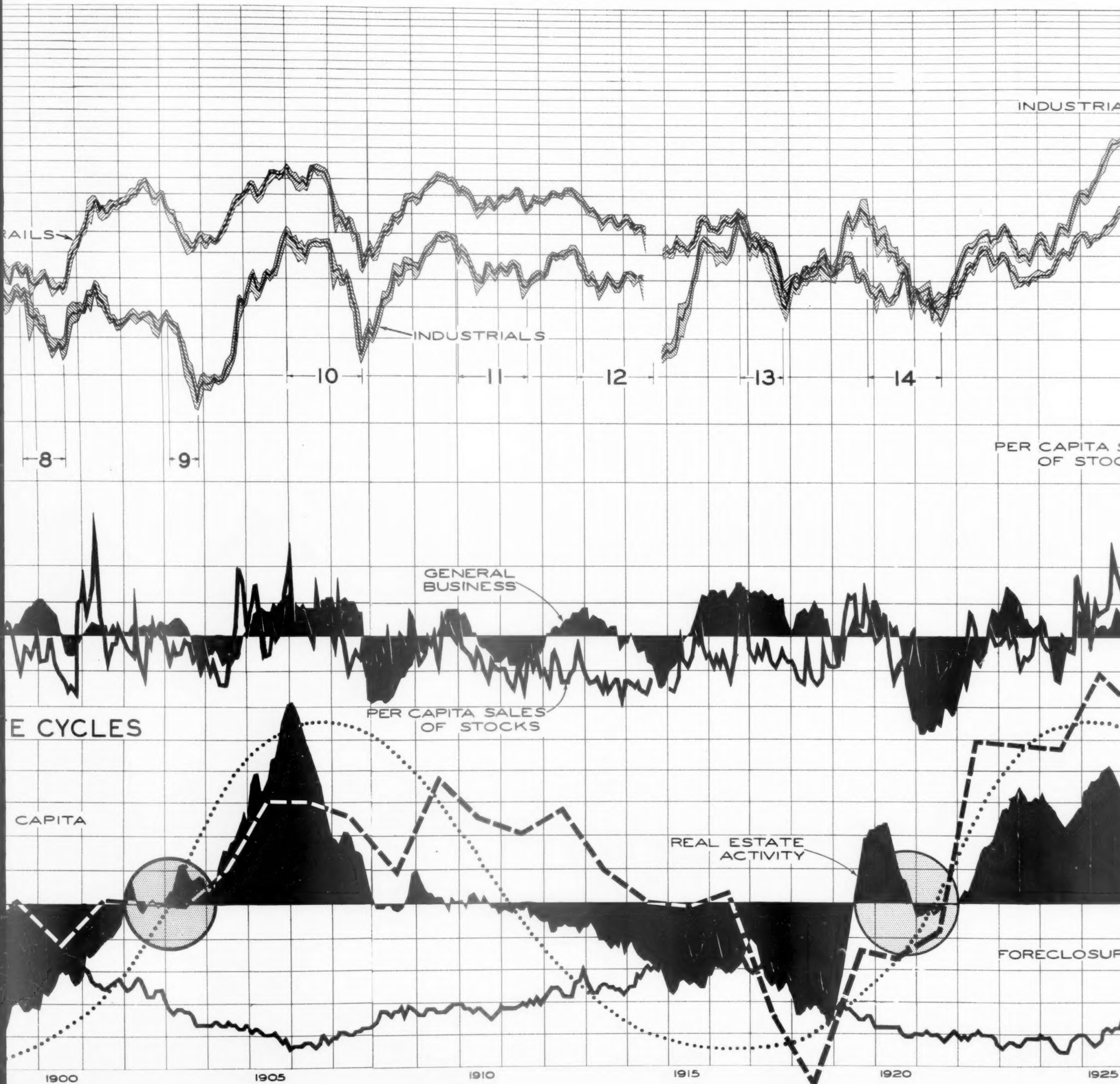

FLUCTUATIONS IN STOCK PRICES
1864 - 1938
COPYRIGHT 1938 REAL ESTATE ANALYSTS, INC. SAINT LOUIS
STOCK PRICES FROM 1864 - 1897 FROM FIGURES COMPILED BY E.W. AXE;
FROM 1897 - 1938 DOW-JONES AVERAGES USED.
STOCK PRICES
SHARES TRADED PER CAPITA
REAL ESTATE ACTIVITY
NORMAL
1865
1870
1875
1880



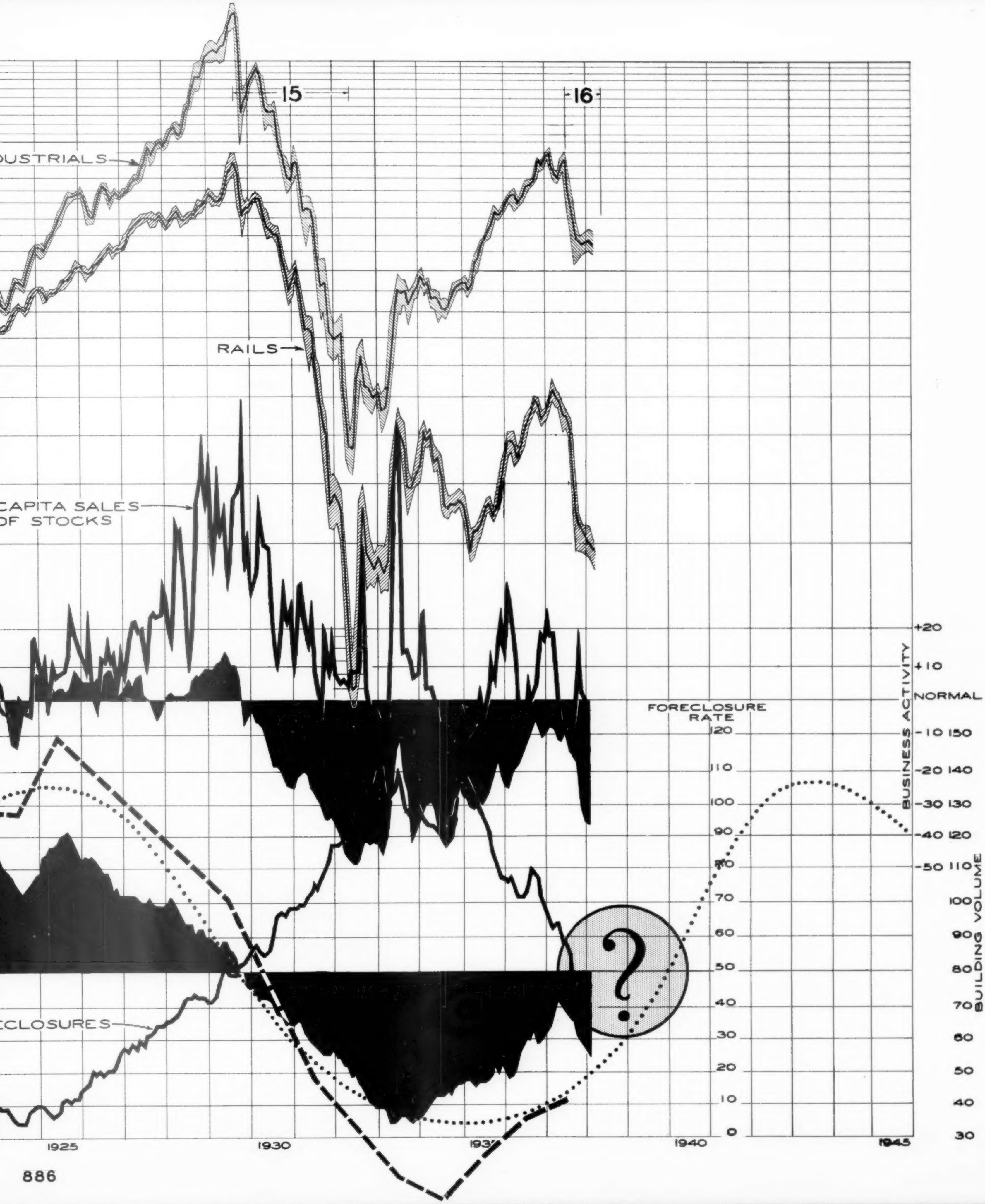
5
6
7
8
9
RAILS
NATIONAL BUSINESS CYCLES
COL. LEONARD P. AYRES
NATIONAL REAL ESTATE CYCLES
BUILDING VOLUME PER CAPITA
FORECLOSURES
1885
1890
1895
1900



INDUSTRIA
RAILS
INDUSTRIALS
8
9
10
11
12
13
14
PER CAPITA S
OF STOC
GENERAL BUSINESS
PER CAPITA SALES OF STOCKS
E CYCLES
CAPITA
REAL ESTATE ACTIVITY
FORECLOSUR
1900
1905
1910
1915
1920
1925

885

886


15
16
DUSTRIALS
RAILS
CAPITA SALES
OF STOCKS
FORECLOSURE
RATE
BUSINESS ACTIVITY
+20
+10
NORMAL
-10 150
-20 140
-30 130
-40 120
-50 110
100
90
80
70
60
50
40
30
BUILDING VOLUME
120
110
100
90
80
70
60
50
40
30
20
10
0
ECLOSURES
1925
1930
1940
1945
?

AMORTIZING 90% LOANS (continued from page 883)

built for less than the amount still owed on the old one. We think this will always be the situation with buildings constructed near the crest of the building boom. Chart 5 shows that a 90% loan on a home built in 1928 would have had a very unsatisfactory experience as it, too, for many years was worth less than the amount still owed on the loan, and in some years, the amount of the loan was greater than the amount necessary to rebuild it new. On the other hand,Chart 6 shows that a home built in 1933,because of the rapid increase of construction costs which followed the bottom of the depression, would have had a very satisfactory experience; and the chances are that any decline which might occur in the future will not be sufficient to bring this loan into difficulty as the equity is now considerable.

We are inclined to believe that the majority of 90% loans amortized in twenty-five years made during the next two years will be safe,regardless of insurance; for we think that as a volume of new building gets under way building costs will again advance. If construction costs increase, they will be followed by an increase in values, which will increase equities and decrease the percentage of the loan. Should our general forecast be wrong, however, and should this recession continue for a protracted period, building costs will fall still further, with a resulting decline in real estate values. Under this condition 90% loans made today would get into serious trouble in the next few years. Regardless of the immediate outlook, loans made in the forties will run a very grave danger of getting into trouble, because of the downward movement which will probably take place in construction costs and values after the top of the boom has been passed.

HOW FAR OFF IS THE BOOM ? (continued from page 880)

last before the real boom commences. In "The Coming Boom in Real Estate", published in May of 1936, we said that we thought we would be at the top of the boom about 1943 or 1944. It does not seem to us probable that we could hit the top of this next boom before that period,and a careful study of the long chart in this report might even indicate that there is a strong probability that the boom will not reach its crest that early. There is no way of telling at this time how large the red circle for the present period should be, but we have drawn it in the fashion which we believe is the most probable. If we are correct in this estimate, the real boom would not get seriously underway until 1941. It might be interesting to turn back to the December, 1936, Real Estate Analyst on page 652 where we charted our opinion of the development of the real estate activity areas from 1935 through 1945. It will be noticed that at that date we showed our estimate of the real boom commencing in the spring of 1941. By this we do not mean,of course, that real estate will not improve considerably in value in the period immediately ahead. We think that it will, but the boom of which we are speaking will be an irrational boom similar to the irrational booms of the past. The curious thing regarding all of these booms, however, is that, at the time they occur, people never believe them irrational.

One reason for believing that the circle covering the intermediate period before the real boom develops will be larger than the circles for the last two intermediate periods is that the period following the big depression of the seventies was quite long. This period was the only other previous one on record when foreclosures rose to similar heights. This might indicate that it takes much longer to liquidate the situation when much property is being held by unwilling owners.

A NEW INDEX OF RESIDENTIAL RENTS

FOR some time it has been apparent that the average of advertised rents as computed each week by Real Estate Analysts, Inc., from the classified advertisements appearing in the newspapers of the principal cities,reacts quicker to changed conditions and swings by a larger percentage than the average of all rents being paid. This has also been true of the index computed by the National Industrial Conference Board. Both of these indexes have advanced further in the period from 1933 to the present than have actual rents during this period.

In this characteristic our index and the index of the National Industrial Conference Board are more similar to an index of sensitive commodity prices such as Moody's. A sensitive index has considerable value in showing quickly changes in trends.

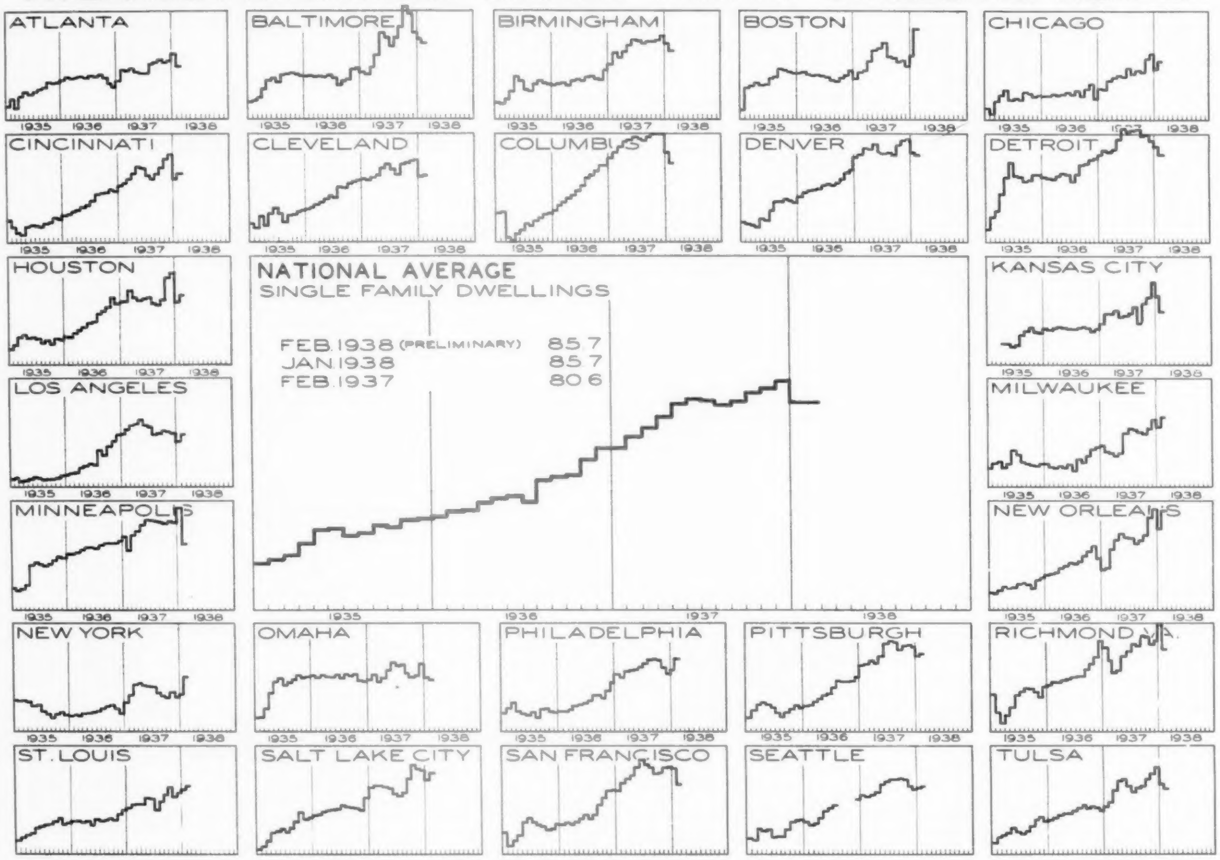
We have been trying for some time to evolve a method of correction which would enable our figures on advertised rents to more nearly portray actual rent levels. After considerable experiment we have found that a moving average for a two-year period with a heavier weighting on the last six months seems to fluctuate more nearly with rent levels, and it seems logical that it should. One difficulty with the advertised rent as an index of actual rent is that it represents the asking price of units vacant at that time, while actual rent levels are composed of the rentals agreed on when space was rented a number of months and sometimes a number of years in the past. For this reason rent levels change slower than do advertised rents.

In the index shown on page 891 we have used this two-year moving average, with each of the first eighteen months weighted one, each of the nineteenth and twentieth months weighted two, each of the twenty-first and twenty-second months weighted three, and each of the twenty-third and twenty-fourth months weighted four.

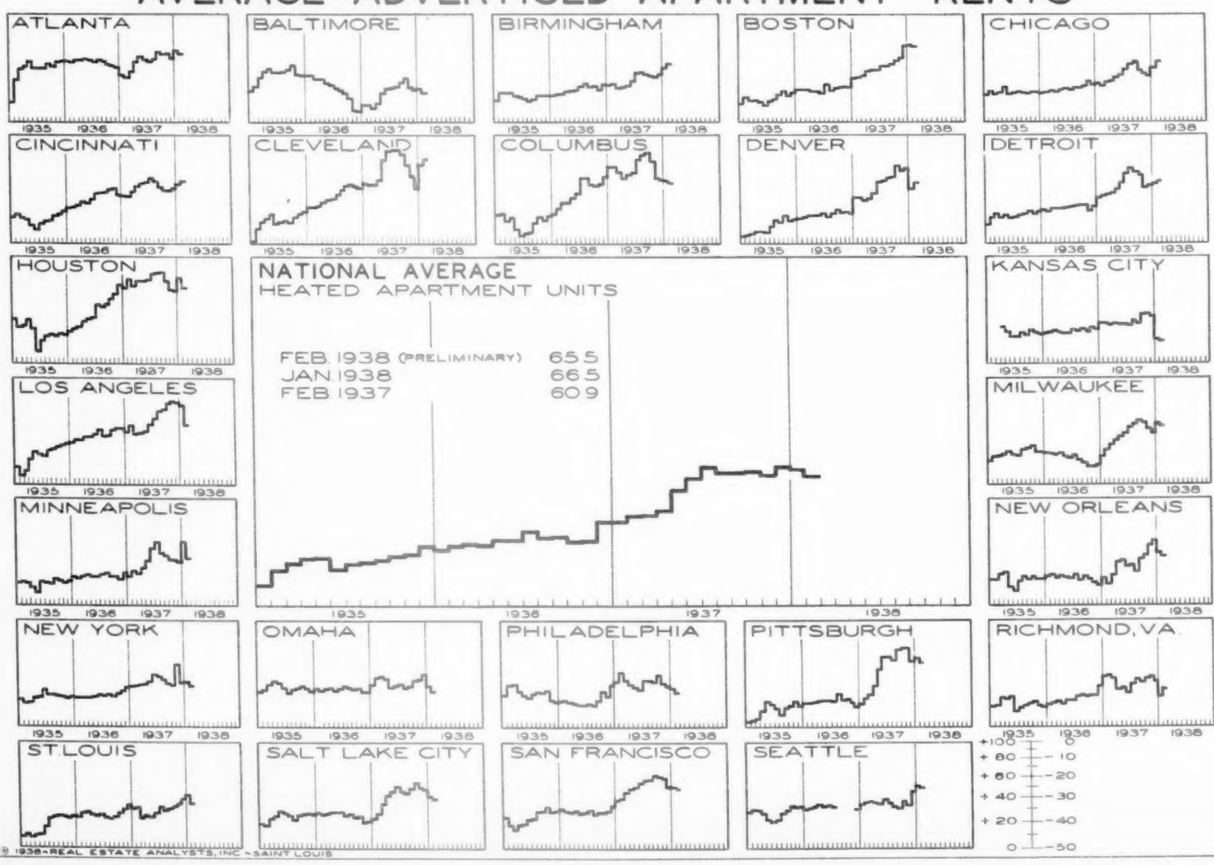
Our new index is charted directly in dollars per month per room, which makes possible a comparison of rent levels in the twenty-six cities. It should be remembered, however, that in each city these figures represent an average of the better- and lower-class living accommodations.

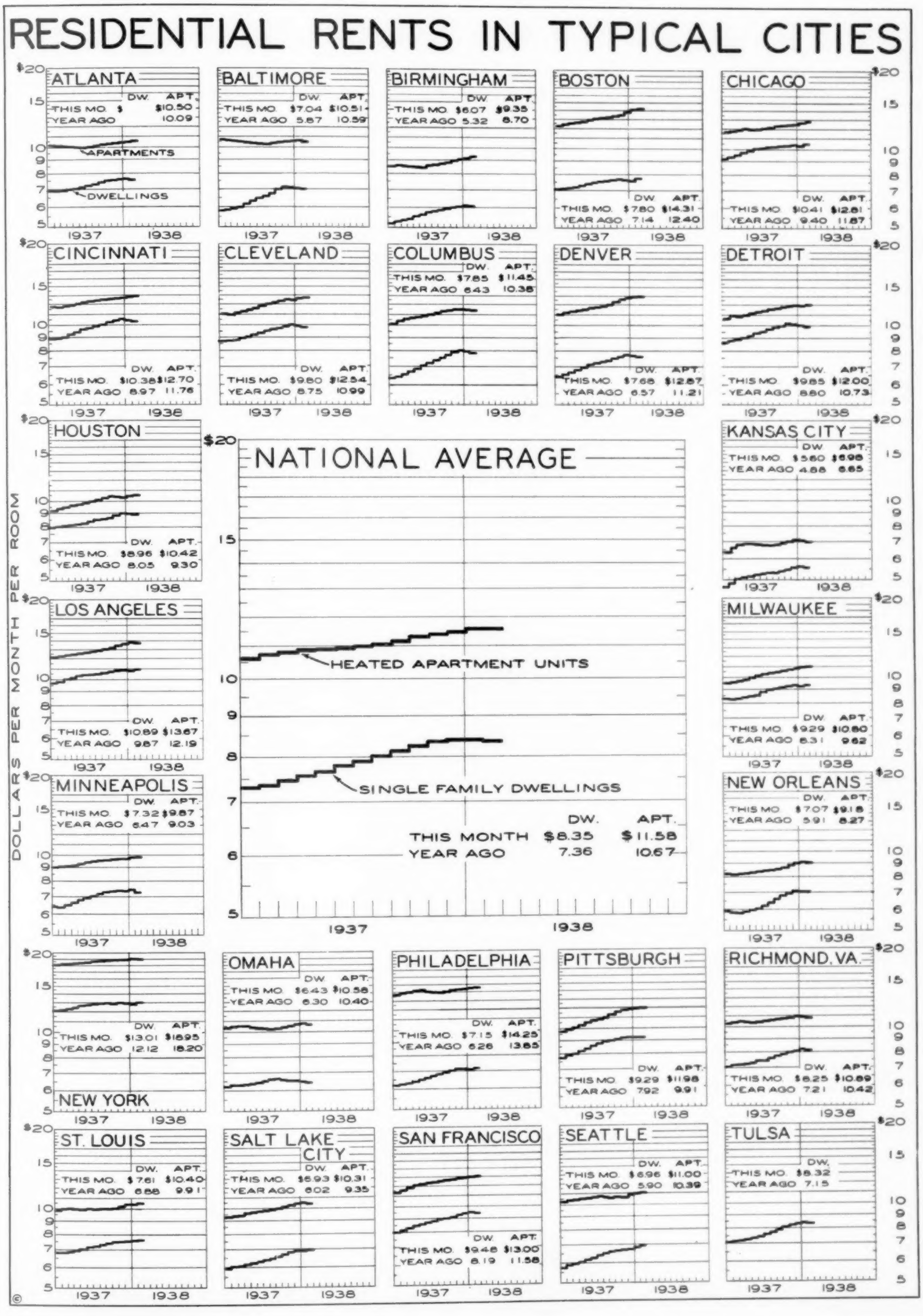
To make a comparison possible with our older index we have reproduced it on the page opposite the new index. We have used a composite of the single family and apartment national lines, as shown on our new index, on the chart on the first page of this report.

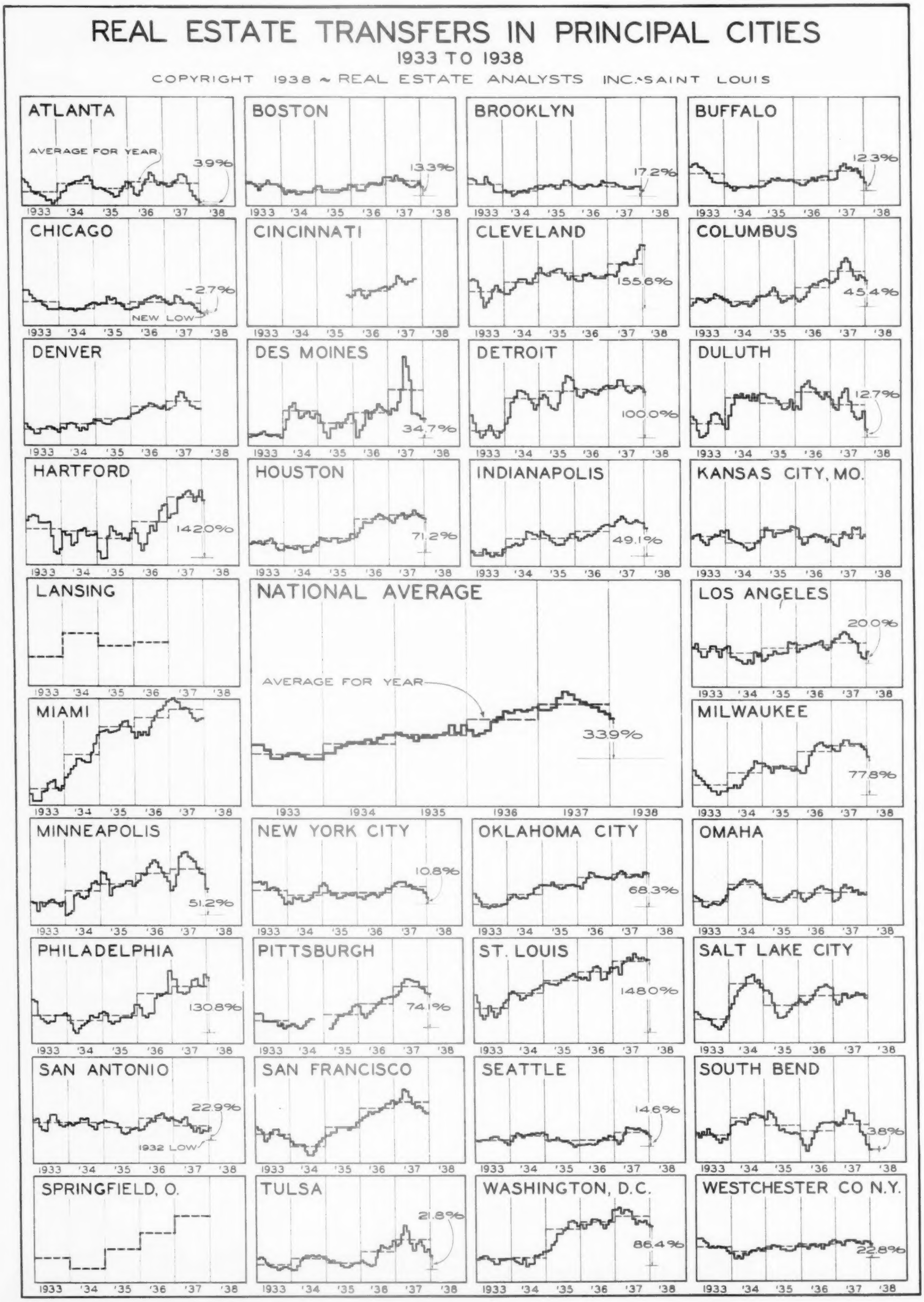
AVERAGE ADVERTISED SINGLE FAMILY DWELLING RENTS

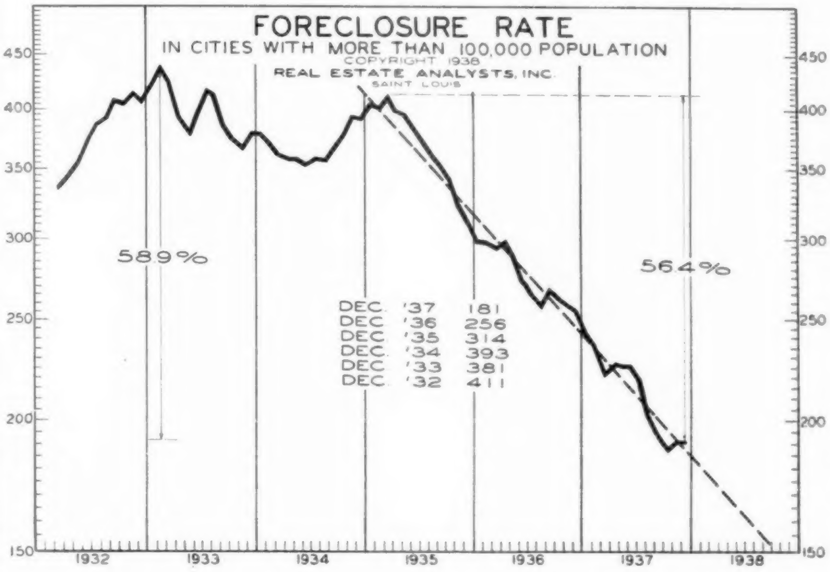


AVERAGE ADVERTISED APARTMENT RENTS

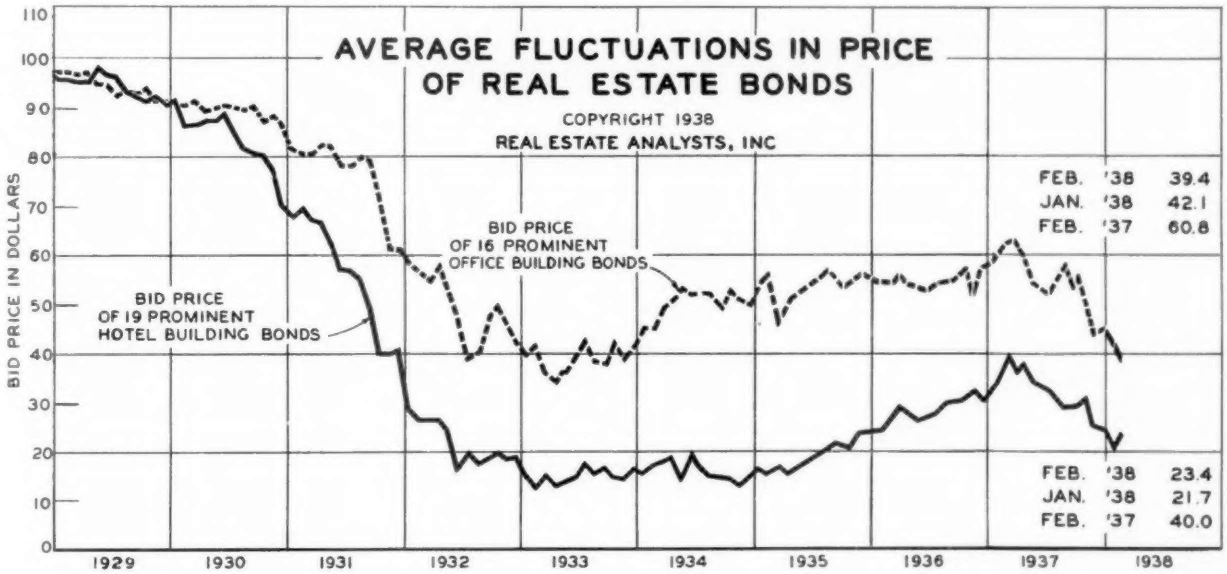



RESIDENTIAL RENTS IN TYPICAL CITIES
DOLLARS PER MONTH PER ROOM
ATLANTA
DW. APT.
THIS MO. $ $10.50
YEAR AGO 10.09
APARTMENTS
DWELLINGS
BALTIMORE
DW. APT.
THIS MO. $7.04 $10.51
YEAR AGO 5.87 10.59
BIRMINGHAM
DW. APT.
THIS MO. $6.07 $9.35
YEAR AGO 5.32 8.70
BOSTON
DW. APT.
THIS MO. $7.80 $14.31
YEAR AGO 7.14 12.40
CHICAGO
DW. APT.
THIS MO. $10.41 $12.81
YEAR AGO 9.40 11.87
CINCINNATI
DW. APT.
THIS MO. $10.38 $12.70
YEAR AGO 8.97 11.76
CLEVELAND
DW. APT.
THIS MO. $9.80 $12.54
YEAR AGO 8.75 10.99
COLUMBUS
DW. APT.
THIS MO. $7.85 $11.45
YEAR AGO 6.43 10.36
DENVER
DW. APT.
THIS MO. $7.68 $12.87
YEAR AGO 6.57 11.21
DETROIT
DW. APT.
THIS MO. $9.85 $12.00
YEAR AGO 8.80 10.73
HOUSTON
DW. APT.
THIS MO. $8.96 $10.42
YEAR AGO 8.05 9.30
NATIONAL AVERAGE
HEATED APARTMENT UNITS
SINGLE FAMILY DWELLINGS
DW. APT.
THIS MONTH $8.35 $11.58
YEAR AGO 7.36 10.67
KANSAS CITY
DW. APT.
THIS MO. $5.60 $6.98
YEAR AGO 4.88 6.65
LOS ANGELES
DW. APT.
THIS MO. $10.89 $13.67
YEAR AGO 9.87 12.19
MILWAUKEE
DW. APT.
THIS MO. $9.29 $10.80
YEAR AGO 8.31 9.62
MINNEAPOLIS
DW. APT.
THIS MO. $7.32 $9.87
YEAR AGO 6.47 9.03
NEW ORLEANS
DW. APT.
THIS MO. $7.07 $9.18
YEAR AGO 5.91 8.27
NEW YORK
DW. APT.
THIS MO. $13.01 $18.95
YEAR AGO 12.12 18.20
OMAHA
DW. APT.
THIS MO. $6.43 $10.58
YEAR AGO 6.30 10.40
PHILADELPHIA
DW. APT.
THIS MO. $7.15 $14.25
YEAR AGO 6.26 13.65
PITTSBURGH
DW. APT.
THIS MO. $9.29 $11.98
YEAR AGO 7.92 9.91
RICHMOND, VA.
DW. APT.
THIS MO. $8.25 $10.89
YEAR AGO 7.21 10.42
ST. LOUIS
DW. APT.
THIS MO. $7.61 $10.40
YEAR AGO 6.88 9.91
SALT LAKE CITY
DW. APT.
THIS MO. $6.93 $10.31
YEAR AGO 6.02 9.35
SAN FRANCISCO
DW. APT.
THIS MO. $9.48 $13.00
YEAR AGO 8.19 11.58
SEATTLE
DW. APT.
THIS MO. $6.96 $11.00
YEAR AGO 5.90 10.39
TULSA
DW.
THIS MO. $8.32
YEAR AGO 7.15
1937
1938
©


REAL ESTATE TRANSFERS IN PRINCIPAL CITIES
1933 TO 1938
COPYRIGHT 1938 ~ REAL ESTATE ANALYSTS INC. SAINT LOUIS
ATLANTA
AVERAGE FOR YEAR
3.9%
BOSTON
13.3%
BROOKLYN
17.2%
BUFFALO
12.3%
CHICAGO
-2.7%
NEW LOW
CINCINNATI
CLEVELAND
155.6%
COLUMBUS
45.4%
DENVER
DES MOINES
34.7%
DETROIT
100.0%
DULUTH
12.7%
HARTFORD
142.0%
HOUSTON
71.2%
INDIANAPOLIS
49.1%
KANSAS CITY, MO.
LANSING
NATIONAL AVERAGE
AVERAGE FOR YEAR
33.9%
LOS ANGELES
20.0%
MIAMI
MILWAUKEE
77.8%
MINNEAPOLIS
51.2%
NEW YORK CITY
10.8%
OKLAHOMA CITY
68.3%
OMAHA
PHILADELPHIA
130.8%
PITTSBURGH
74.1%
ST. LOUIS
148.0%
SALT LAKE CITY
SAN ANTONIO
22.9%
1932 LOW
SAN FRANCISCO
SEATTLE
14.6%
SOUTH BEND
3.8%
SPRINGFIELD, O.
TULSA
21.8%
WASHINGTON, D.C.
86.4%
WESTCHESTER CO N.Y.
22.8%
1933 '34 '35 '36 '37 '38
1933 1934 1935 1936 1937 1938



THE chart to the left shows the monthly fluctuations in the foreclosure rate in cities having more than 100,000 population. This chart is corrected for seasonal fluctuation and is based on the compilations made by the HOLC. The dashed line shows the trend at which foreclosures have been dropping for the past three years. The figure for December, which is the last figure available, showed little change from the November figure. It is 29.3% below the level of a year ago, 56.4% below the peak of 1935, and 58.9% below the all-time peak of 1933.



THE chart above shows the average fluctuations in the bid prices of office and hotel building bonds. The trend of both office building and hotel building bonds has been downward during most of 1937 and the beginning of 1938. The buildings used are only those on which quotations can be secured monthly. The office building list includes the following: Broadway Motors, Bryant Park, Bush Terminal, Carbide and Carbon, Chesebrough, Chrysler, Cleveland Terminal,Equitable (N.Y.), Graybar, Grant, Liggett, One LaSalle Street, Postum, Textile, Wanamaker (Phila.), Woodbridge. The hotel list includes the following: Bowman-Biltmore, Eastern Ambassador Hotel, Eppley Hotels, George Washington Hotels, Hotel Lexington, Hotel Sherman, Hotel St. George, LaSalle Hotel, Lord Baltimore, National Hotel of Cuba, Palace Hotel (San Francisco), Park Central Hotel, Pitts Hotel, Savoy-Plaza, Sevilla-Biltmore, Sherry-Netherland, Stevens Hotel, Waldorf-Astoria.